ECONOMIC AND BUSINESS HISTORY 26/27

LECTURE 8 – GLOBALIZATION (SPREAD AND LIMITS)

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Globalization (Spread and limits)



1. Direct impacts



2. Losers?

1. Direct Impacts



Spread

With the 1st Globalization, growth spread from a small core of industrialised countries (GB, France, Belgium, Switzerland and parts of Germany) to the rest of the globe

For most economies (including colonies) this was the beggining of MEG

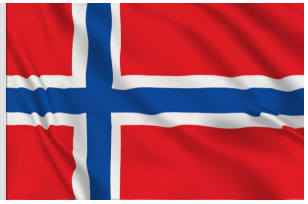
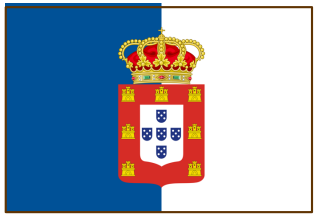
But was the impact of the 1st Globalization necessarily positive in all its dimensions?

1st Globalization: Labour Flows

Labour flows were beneficial for both parts involved

Receiving countries from the New World actively sought to attract European farmers and workers to make productive their large natural resources, bringing wages down

For European countries with late convergence, migration allowed for the less productive to leave the labour market, helping to improve labour productivity

	Δ Active Pop. 1870-1913	Δ Real wages 1870-1913	Real wages / GB real wages 1870	Real wages / GB real wages 1913
	-45%	32%	73%	92%
	-39%	28%	48%	95%
	-24%	10%	40%	56%
	37%	2%	28%	23%

Sources: Daudin et al, p. 21; Williamson Table 1; Lains, Table 8; Valério 2001, Table 8.2

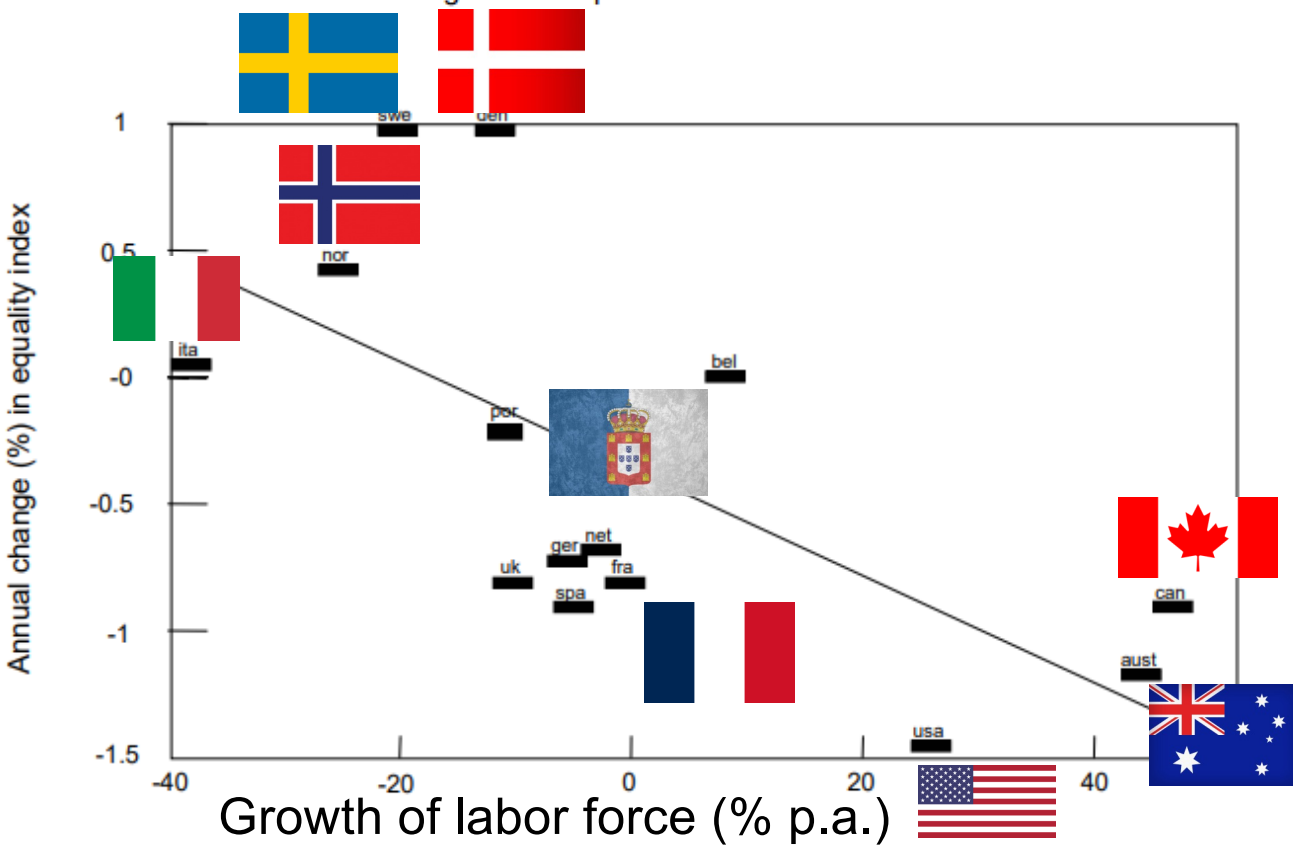
1st Globalization: Labour Flows

As mass migration allowed the poor to leave, it alleviated inequality in the main exporting countried to rising (late convergence European, mostly)

However, inequality increased in the labor-importing countries, as incomes from labour diminished with the arrival of migrants in large quantities

Figure 2

Migration's impact on the labor force



Source: O'Rourke and Williamson 2006.

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Coordinated Direct Investment Survey i

Capital Flows

Capital flows also benefitted poorer countries. Unlike 2020, peripheral (incl. USA) and poor economies top the destinations of capital exports in ranking in 1913 (unlike 2020, when wealthy financial economies attract savings from poor and rich countries)

Foreign Direct Investment, 1913/1914 and 2020

Country	1913/1914 (US$ bils)
USA	7.1
Russia	3.8
Canada	3.7
Argentina	3.0
Austria-Hungary	2.9
Spain	2.5
Brazil	2.2
Mexico	2.2
India & Ceylon	2.0
South Africa	1.7

2020 Rank	Country
1	USA
2	Netherlands
3	Luxembourg
4	China
5	United Kingdom
6	Hong Kong SAR
7	Singapore
8	Switzerland
9	Ireland
10	Germany

Sources: for 1913/4 Schularick 2006; for 2020, IMF, Coordinated Direct Investment Survey

Capital Flows

Abundant capital imports could creates some cases of dependency on foreign capital

This was compounded by poor investment choices (incl. financing public debt) risking the sovereignty of borrowing countries.

In this case however, the flaw is the receiving country's poor institutions or policies

Table 1 Dates of Financial Crises, 1880-1913

Country	Banking Crisis
Argentina	1890
Argentina	1891
Australia	1893
Austria	1882
Austria	1883
Austria	1884
Belgium	1885
Brazil	1890
Brazil	1891
Brazil	1897
Brazil	1900
Brazil	1901
Chile	1889
Chile	1898
Chile	1907
Denmark	1885
Denmark	1907
Egypt	1907
Finland	1900
France	1882
France	1889
France	1907
Germany	1901

Country	Banking Crisis
Italy	1891
Italy	1893
Italy	1907
Japan	1901
Japan	1907
Mexico	1884
Mexico	1885
Mexico	1907
Mexico	1908
Netherlands	1897
New Zealand	1893
New Zealand	1894
New Zealand	1895
Portugal	1891
Sweden	1897
Sweden	1907
Turkey	1895
UK	1890
USA	1884
USA	1893
USA	1907
Uruguay	1913

Country	Currency Crisis
Argentina	1885
Argentina	1890
Argentina	1908
Brazil	1889
Brazil	1898
Canada	1891
Canada	1893
Canada	1908
Chile	1887
Chile	1889
Chile	1898
Egypt	1900
France	1888
Germany	1893

Country	Sovereign Debt Crisis
Argentina	1890
Brazil	1898
Chile	1880
Greece	1894
Italy	1894
Mexico	1880
Portugal	1892

Country	Currency Crisis
Germany	1907
Greece	1885
India	1891
Italy	1894
Italy	1908
Japan	1900
Japan	1904
Japan	1908
New Zealand	1903
Portugal	1891
Russia	1891
Turkey	1886
Turkey	1903
USA	1891

Country	Sovereign Debt Crisis
Russia	1885
Spain	1882
Spain	1900
Turkey	1880
Uruguay	1891

Notes: Sources for these dates are data Underlying Bordo, Eichengreen, Klingebiel, and Martínez-Peria (2001), Beim and Calomiris (2001) and Reinhart, Rogoff and Savastano (2003). The crisis in Belgium was not dated by BEKM but was highlighted by Buyst and Maes (2007). The debt default in Italy (1894) was discussed in Tattara (2003) and Spain (1900) in Comín (2012).

2. Losers?



Int'l Division of Labour

This 1st Globalization inaugurated the international division of labour, giving poorer countries an opportunity to identify their comparative advantages

Industrialisation made agricultural goods too expensive to produce domestically and increased the demand for raw materials

This created a centre (the industrialised goods) and a periphery specialised in agrarian goods and raw materials, including the US

Int'l Division of Labour

The most controversial issue is the effects of trade flows

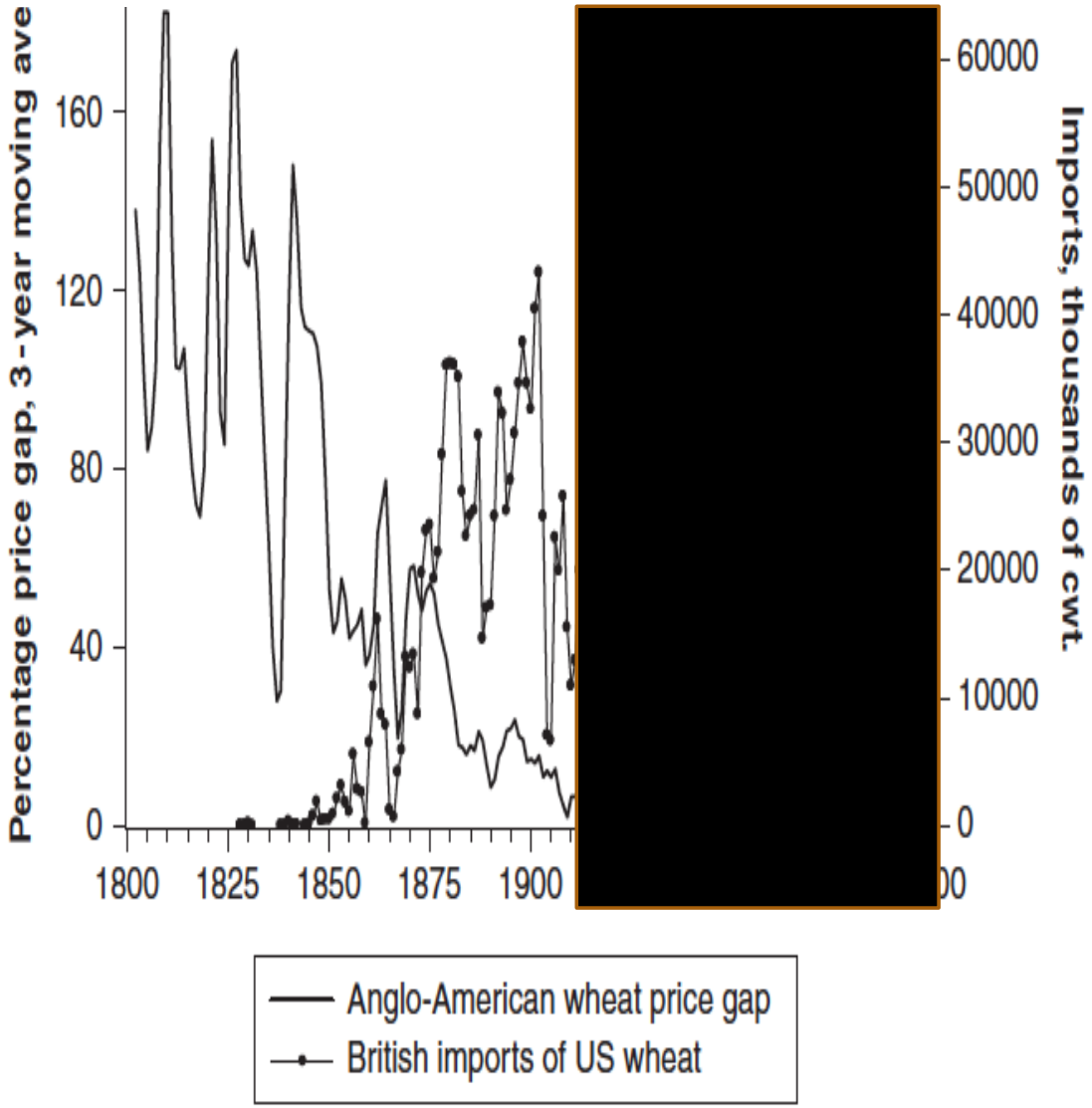
The 1st Globalization gave poor and rich countries an opportunity to identify their comparative advantages (a la Denmark)

However, the international division of labour did not always lead to convergence

1st Globalization Trade

The key benefit of international trade was reduction of prices. This was allowed by steam shipping & the reduction of tariffs by advanced countries

An excellent illustration is how Britain reduced tariffs for grains in the 1820s, and in the 1840s (with the progress of steam navigation) and saw its wheat prices integrating with those of the world's most efficient producer: the US



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Effect on Real Wages

First decade with reduced tariffs!

Decreasing grain prices were extremely beneficial for the workers, who thus saw increasing real incomes, even without wages rise. The impact was deeply felt in England, as graph shows

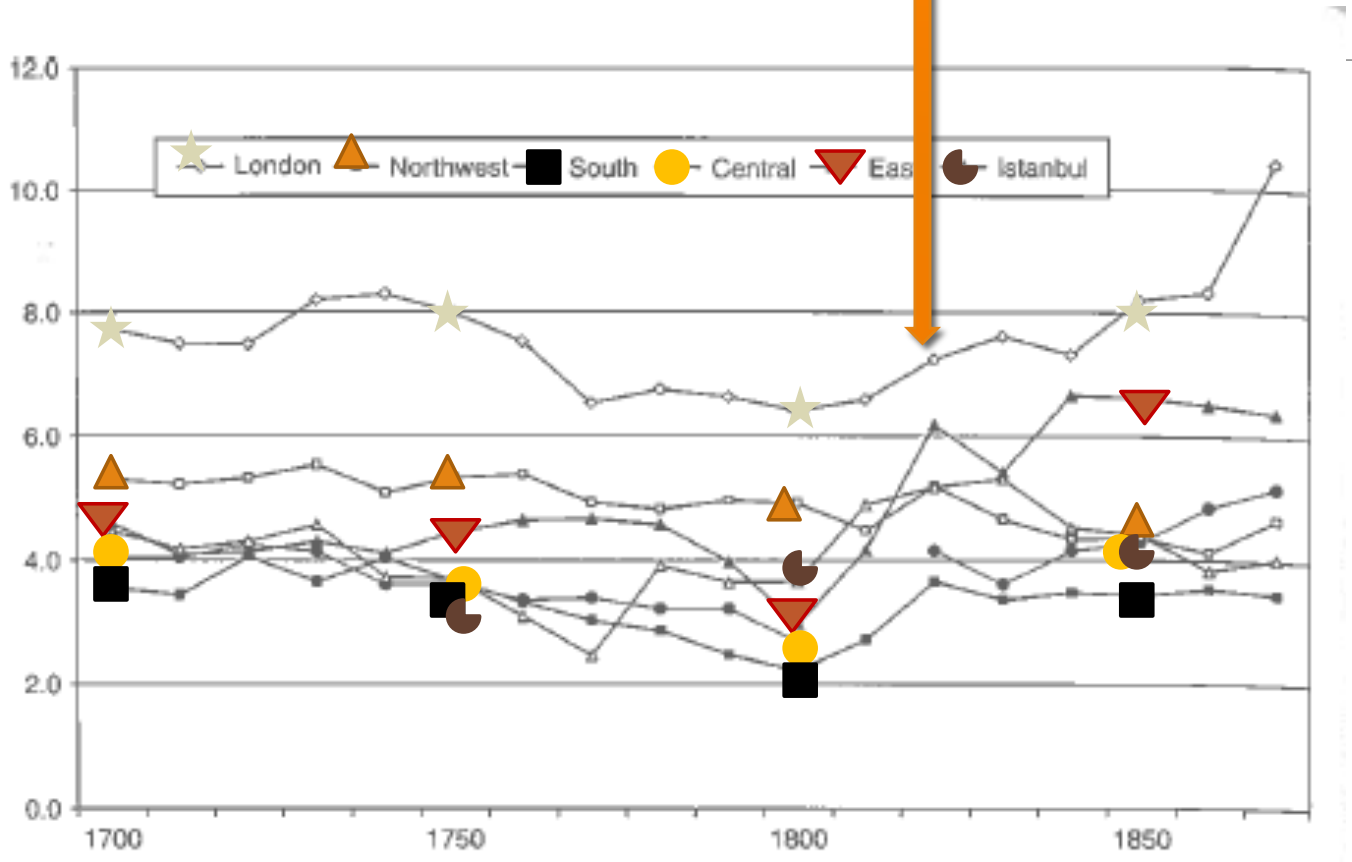


Figure 9.1 Real wages of European unskilled construction workers, 1700–1870 (Allen, 2001; Ozmucur and Pamuk, 2002)

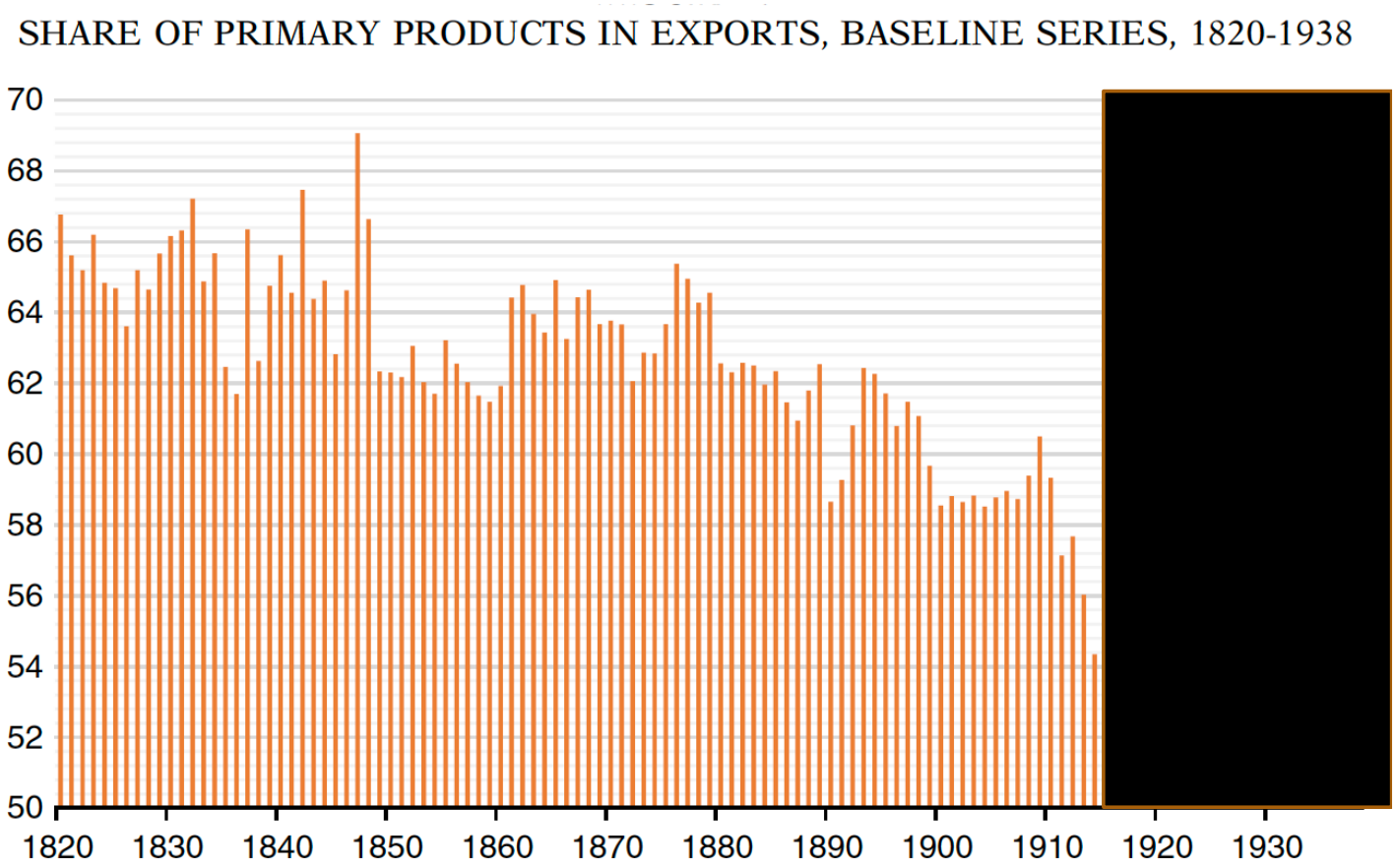
Int'l Division of Labour

Industrialisation made agricultural goods too expensive to produce domestically and increased the demand for raw materials

This created a centre (the industrialised goods) and a periphery specialised in agrarian goods and raw materials, including the US

Early Globalization stimulated trade on agrarian goods

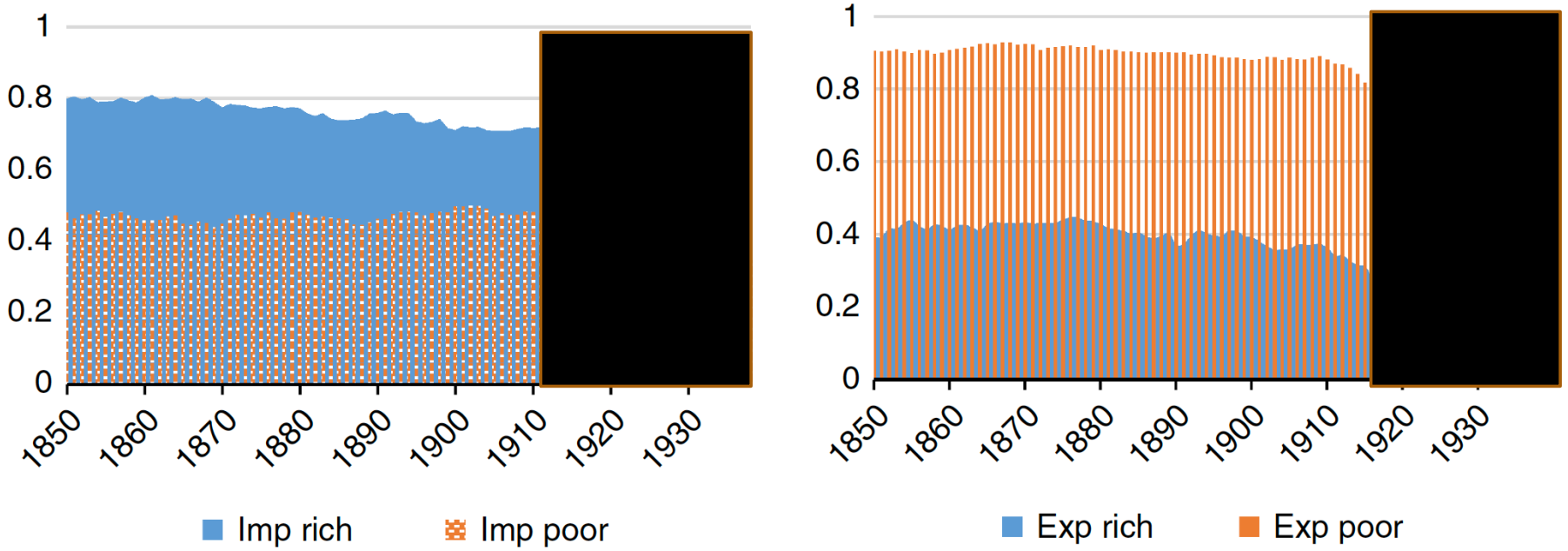
Primary goods in the first stages of Gobalization were the main traded goods, although its share decreaseds as their price decreased, as competition increased and new producers were found (e.g. Argentinian meat and wheat replacing earlier European and US exports to GB)



Source: Tena & Junguito 2013

Clear Specialization Pattern

SHARE OF PRIMARY PRODUCTS IN EXPORTS AND IMPORTS IN RICH AND POOR COUNTRIES



Sources: «product composition» http://www.uc3m.es/tradehist_db and text.

Source: Tena & Junguito 2013

Sectors and Globalization

- Specializing in agricultural and mining production and exchanging their surpluses of primary products for manufactures, in countries where the primary sector was more profitable (or increased more real income)
- Specialisation left economies vulnerable without the mounting demand for foodstuffs and raw materials of the industrializing regions at the centre
- As a consequence, few of the peripheral countries became industrialised, although the main exception is very important: the USA (see next slide)

From the Centre to the Periphery

- At the Centre growing, industrial demand on natural resources and prompted the search for cheaper supplies in the periphery
- Outflow of capital and skilled labour to develop peripheral sources of supply.
- Growth in the Periphery via export of primary products and inflow of foreign capitals and labour, associated with the expansion of the export sector.
- Particularly favoured by these developments were the US and, later, the regions of recent settlement, including Canada, Argentina, Uruguay, South Africa, Australia and New Zealand

Opportunity for the poor economies

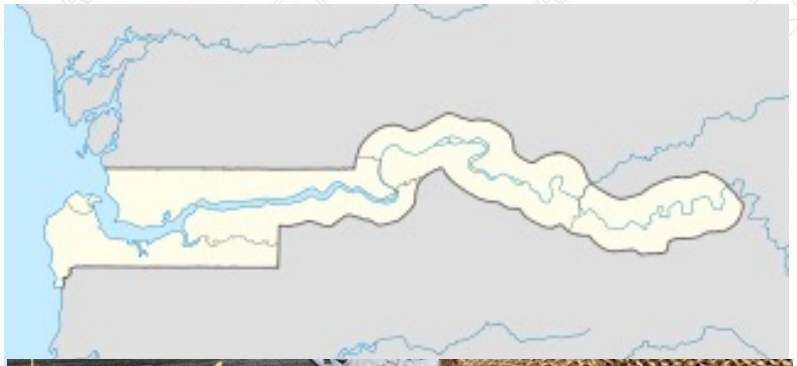
- Industrial demand for primary materials of the central economies created an opportunity for specialization in some hitherto loosely connected areas of the globe.
- This led to the development of highly-specialised economies and to good infrastructure
- Also, the First Globalization also 'globalized' hitherto absolute-advantage goods: rubber introduced in Asia, coffee in Brazil, Tea in ceylon, cocoa, cotton and tea in Africa, etc, etc....
- While these economies grew, there are little signs of convergence after the 1870s

The Danger of Enclave Economies

- An ‘enclave economy’ is a country where external demand for a few specific commodities or raw materials (typically cash crops like rubber, cotton, cocoa, bananas, coffee, palm oil) develops a strong export sector but leaves the rest of the economy unchanged
- Thus, for instance:
- In Gambia, 1858-63, groundnut represented in average 89% of exports
- In Angola, 1887-1912, rubber represented 64% of exports.
- In Nigeria, 1881-1889, palm oil (and by-products) represented 75% of exports

An enclave economy in an enclave colony: Gambia





Gambia is an enclave country, whose territory is surrounded by Senegal

It started in the 1840s as a British protectorate, where “merchants collected oil palm and groundnuts from African producers to meet the rising European demand for oils and fats to produce soap, candles, cooking oils and lubricants” (Sindwell and Jeng)

Soon, groundnut represented about 90% of exports, which led Britain to expand its rule inland, occupying the groundnut-growing margins

Exports thrived but there was no development of industrial sectors. Also, specialization created an agricultural problem:

In late 19th.cent, historians conclude: “The growing dependency on imported rice combined with groundnut exports, rendered Gambian producers much more vulnerable to the fluctuation in world prices for both these commodities. [The] scenario of commercial export crops stimulating local food production had now changed; exports had stimulated food imports." Swindwell and Jeng, p. 134.



Between-country Convergence or Divergence?

Comparison of mean income (unweighted): Inequality between countries increased gently during Globalization (detail: more in Theil than in Gini, because the former also reflects inequality between groups).

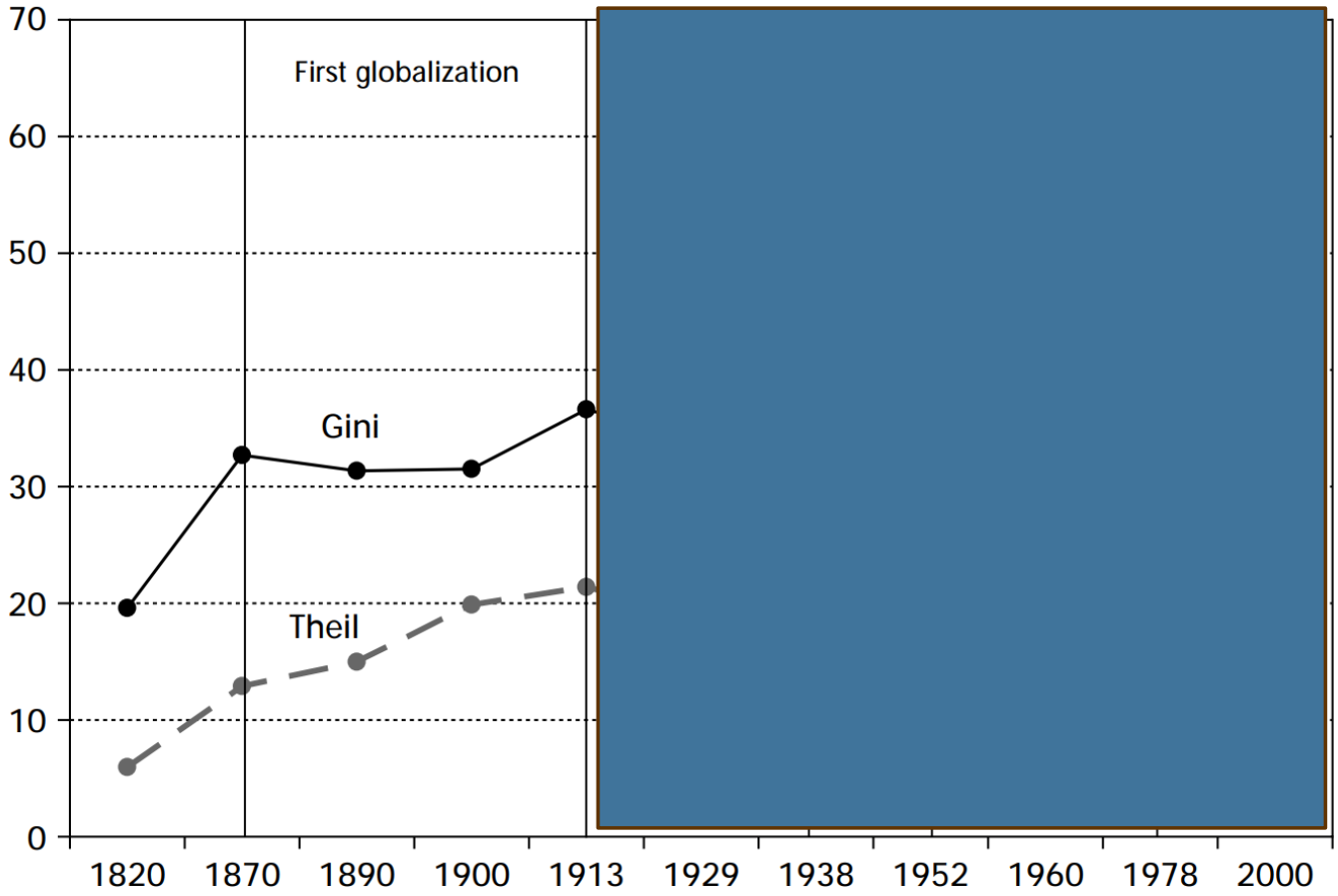


Figure 2.1 Concept 1 inequality, 1820–2000

A weighted comparison shows different results

However, the poor performance of two large countries (China and India) Weighted comparison of mean income (with large countries with low growth like China and India pulling their weight)

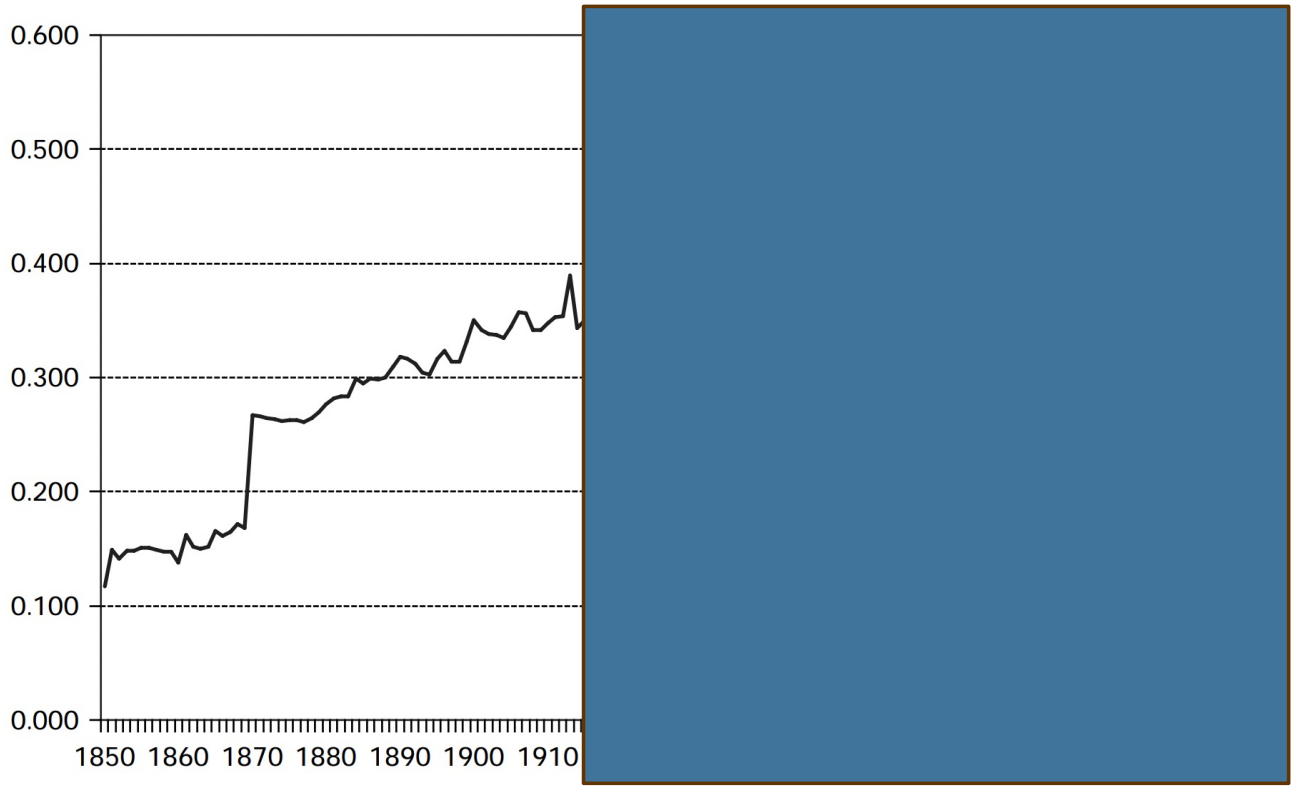


Figure 2.2 Concept 2 inequality (Gini coefficient), 1820–2000

Source: Calculated from Maddison (2004)

‘Self-imposed limits’

“The major obstacles to the diffusion of modern technology were to be found within countries rather than between them (...). What was an even greater obstacle to the spread of industrialization was the fact that many countries, even when they received inflows of foreign labour and capital, lacked (…) institutions and flexibility necessary to take advantage of the changing technological opportunities that presented themselves.”

Graff, Kenwood and Lougheed, *The International aspects of economic*, p. 10

- Enclave economies did not converge, but grew. A few economies remained outside of the Globalization, China beings the most notorious case
- The Chinese government remained contemptuous of Western civilization and opposed to social and economic change (prohibition of steam boats), regarding Globalization as a threat to her societal norms and political regime.
- Thus, China failed to effectively adopt institutions like gold standard and tariffs, and limited foreign direct investment

A Case Study: Chinese railways

- A good illustration of these failures is provided by China's troubles in adopting one of the most transformational technologies of the age: the railways
- After peace between GB and China in 1860, foreign and domestic businesses sought to finance railways in China
- The construction of the early lines was often embargoed by local authorities and unprotected by them. The state provided no security for investors and constructors, while the public did not trust trains
- A combination of a state uninterested in growth, corporative interests of the elites (owners of river transport), weak rule of law and cultural prejudices led to a comparatively modest line

	Railroad length (1,000 kms)	Area (1,000 km²)	Density (kms per km²)
Argentina (1914)	36	2,780	13
China (1911)	8	11,418	0.7
Japan (1910)	8	378	21
Portugal (1910)	2	95	10

Sources: Encyclopaedia Britannica; Mitchell 2007 (Japan)

Chinese Railways: a True Tale (1)

- After the Treaty of Tianjin in 1860 that ended the Opium Wars, Britain and France expected to reap rich rewards.
- In the late 1860s, a group of foreign Shanghai businessmen introduced railways in order to achieve the opening-up the resources of an ancient Empire.', as it happened in India.
- At this time, apart from the slow Grand Canal, most transportation was still carried by foot (porters and wheelbarrows)
- The British Captain Margery led a small expedition to survey a possible railroad from Bhamo in Burma (on the upper River Irrawaddy) to Shanghai. He was murdered by Chinese on his return on 21st Feb 1876.
- Uproar on his death in Britain led to further reparations being exacted from the Qing government. Britain went on to take the kingdom of Burma 1886, which had up until then shown fealty to the Qing Empire.

Chinese Railways: a True Tale (2)

- In Shanghai, entrepreneurs, once again led by the British, built a short 15 miles [24 kms] railway north to Baoshan in 1876 on the banks of the Yangze.
- This met with some local opposition because of the belief that railways bring very bad Feng Shui
- Because of the beliefs that straight lines allowed demons to move rapidly, that demons liked hard, cold metal tracks, and were attracted by burnt coal and smoke, unnecessary curves were added to the route of the track.
- Also, fears of unemployment and low demand for tradtional transportations (often owned by mandarins and other interest groups) made railways inta real threat
- To quell the unrest, the Qing government bought the Shanghai railway in 1877, only to have it dismantled and sent to Taiwan.

Chinese Railways: a True Tale (3)

- Railway building re-started in the 1880s and 90s. The first functional 50 miles [80 kms] railway built in 1881 ran north from the port of Tianjin to Tangshan, Hebei.
- Railway companies were given full control of territory in a twenty mile wide corridor, here, foreign not Chinese laws applied just as in the concessions
- The Qing government saw the railways as a threat, as they allowed foreign troops, missionaries and their influence to penetrate deep into China.
- The convention that the emperor owned everything gave rise to problems over ownership - foreign powers could only lease and not own the land. They could be used to move troops and armaments with little government control over them.
- The Dowager Empress forbade railways in Beijing. However a miniature railway donated by the French was built in the Forbidden City between the living quarters and a dining hall. However, since engines were considered bad feng shui, it was pulled by a troop of eunuchs.